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SUBJECT: Looking toward ASEAN - Guangxi Hopes to Expand Economic Relations with Southeast Asia

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11. (SBU) Summary: Guangxi Zhuang Autonomous Region is eager expand economic relations with Southeast Asia. ASEAN already accounts for 32 percent of its total foreign trade, and the capital, Nanning, hosts the high-profile China-ASEAN Expo, which attracts hundreds of businesses and many heads of state from Southeast Asia every year. Guangxi has dedicated an 18,000 hectare economic zone for investment from ASEAN and businesses interested in trade with the bloc. There has also been considerable investment in cross-border infrastructure, including roads, port links and power supply. Despite these efforts, one well known academic commented that trade expansion is limited by the size of markets in ASEAN. He believes that Guangxi's comparative advantage would favor expanding the province's trade with more developed markets like the United States. End summary.

Looking South

12. (U) Government and business in Guangxi Zhuang Autonomous Region are eager to leverage the area's proximity to Southeast Asia into trade and investment that will drive economic growth. ASEAN countries already account for approximately 32 percent of Guangxi's foreign trade at US\$2.9 billion in 2007. Vietnam, which shares a 400-mile border with Guangxi is the Autonomous Region's largest trading partner with US\$2.3 billion in trade last year, an amount that accounted for 25 percent of total foreign trade. Singapore, Indonesia and Thailand are also major trading partners, each with more than US\$100 billion in annual trade. By comparison, Guangxi's total trade with the United States was US\$700 million.

Putting on a Show

13. (SBU) The annual China-ASEAN Expo is the most high-profile tool in Guangxi's strategy to expand trade with Southeast Asia. The trade and investment show hosted by China each year in Nanning attracted almost 2,000 companies and other exhibitors in 2007 (reftel). Qin Guokan, president of the Guangxi Association of Enterprises with Foreign Investment pointed out to econoff that since 2004 the event has brought 23 ASEAN heads of state to Nanning.

If You Build It...

¶4. (SBU) Guangxi has also established an industrial and commercial park covering an area of 18,000 hectares (nearly 45,000 acres) to attract investment from ASEAN countries and companies eager to trade with the bloc. Initially aimed at overseas Chinese investors, the park's mission was altered in 2004, and it was renamed the China-ASEAN Economic Zone. Zhang Xiangxin, vice director of the zone, told us the government has invested RMB 1.4 billion (about US\$190 million) to develop the infrastructure of the park, including 52 kilometers of roads, 50 kilometers of electricity lines, and 30 kilometers of water lines. The park currently houses 160 enterprises with output of RMB 2.2 billion (about US\$300 million) in ¶2007. However, the vast majority of investment in the park is from domestic sources, and only a quarter of foreign investment is from ASEAN countries. Most is from Hong Kong, Japan, Taiwan and South Korea.

Transportation Expansion

¶5. (SBU) The Chinese government is investing substantially in transportation links between Guangxi and ASEAN neighbors. A highway connecting Nanning with the Vietnam border has been completed, reducing travel time to just 1.5 hours. Li Zhiyong, deputy director general of the Guangxi Department of Commerce, noted that Beijing had recently approved the North Beibu Gulf Economic Cooperation program aimed at enhancing transportation links, especially maritime links, between six Guangxi cities and six ASEAN partner nations. In addition, the China Development Bank and Asian Development Bank have provided loans for infrastructure harmonization between China and Vietnam; new projects should further enhance Guangxi's highway, railway and port links with its southern neighbor. There has also

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been cross-border collaboration with Vietnam on the development of power infrastructure, including planned Guangxi investment in thermal power plants in Vietnam.

Advantages and Obstacles

¶6. (SBU) Explaining some of the advantages Guangxi enjoys in expanding trade with ASEAN, Professor Li Xinguan of Guangxi University's College of Business commented that the autonomous region was well positioned to take advantage of the China-ASEAN Agreement on Trade in Goods, which has already eliminated tariffs on many agricultural products. He believes Laos and Cambodia are particularly promising markets for Guangxi. However, he noted that those markets are limited in size, and he was less optimistic about the potential for growth in trade with other ASEAN nations. Comparative advantages lend themselves more to expansion of Guangxi's trade with the United States rather than trade with ASEAN, according to Li. He also commented that support from Beijing for at least one proposal to enhance economic cooperation between Guangxi and Vietnam had been weak, leaving Guangxi's government to work with provincial counterparts rather than Hanoi.

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